

Report of the auditor-general to the Free State Legislature and the council on the Thabo Mofutsanyana District Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Thabo Mofutsanyana District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Thabo Mofutsanyana District Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act no. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (Dora).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Material uncertainty relating to going concern

6. I draw attention to the matter below. My opinion is not modified in respect of this matter.
7. Note 29 to the financial statements indicates that the municipality's current liabilities exceeded its current assets by R1 878 647 as at 30 June 2019 and the municipality has a possible obligation of R36 000 000 pending a court ruling. These events or conditions, along with other matters as set forth in note 29, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Irregular expenditure

9. As disclosed in note 32 to the financial statements, the municipality incurred irregular expenditure of R17 022 948 (2018: R13 973 588) due to non-compliance with supply chain management (SCM) requirements. In addition, the full extent of irregular expenditure is still being determined.

Material impairment

10. As disclosed in notes 4 and 5 to the financial statements, receivables from exchange and receivable from non-exchange transactions were impaired by R3 641 795 (2018: R2 561 287).

Restatement of corresponding figures

11. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2018 were restated as a result of an error in the financial statements of the municipality at, and for the year ended, 30 June 2019.

Material uncertainty relating to claims against the municipality

12. With reference to note 26 to the financial statements, the municipality is the defendant in various claims against it. The municipality is opposing these claims. The ultimate outcome of these matters could not be determined and no provision for any liabilities that may result were made in the financial statements.

Other matters

13. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

14. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion thereon.

Unaudited supplementary schedules

15. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

16. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to

enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

17. In preparing the financial statements, the accounting officer is responsible for assessing the Thabo Mofutsanyana District Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

18. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
19. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

20. In accordance with the Public Audit Act of South Africa, 2004 (Act no. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for the selected key performance area (KPA) presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
21. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected KPA presented in the annual performance report of the municipality for the year ended 30 June 2019:

KPA	Pages in the annual performance report
KPA 1 – basic service delivery	x – x

23. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. The material findings in respect of the usefulness and reliability of the selected KPA are as follows:

KPA 1 – basic service delivery

Number of water samples taken

25. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of number of water samples taken. This was due to the municipality not maintaining an adequate record keeping system to enable reliable reporting. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the achievement of 434 samples as reported in the annual performance report.
26. I was unable to obtain sufficient appropriate evidence to support the measures taken to improve performance against the target for Mantsopa of 48 samples as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance:

Other matter

27. I draw attention to the matter below.

Achievement of planned targets

28. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 25 to 26 of this report.

Adjustment of material misstatements

29. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of KPA 1 – Basic service delivery. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Introduction and scope

30. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
31. The material findings on compliance with specific matters in key legislations are as follows:

Expenditure management

32. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The value of R17 022 948, as disclosed in note 32, is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the disclosed irregular expenditure was caused by non-compliance with SCM regulations.
33. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R105 692, disclosed in note 33 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties incurred on late payments.

Human resource management

34. Appropriate systems and procedures to monitor, measure and evaluate staff performance were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000).

Annual financial statements

35. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of current assets, revenue and expenditure identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

36. Some goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c). Similar non-compliance was also reported in the previous year.
37. Some quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).
38. Some quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

39. Some competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the previous year.
40. The preference point system was not applied for some procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act of South Africa, 2000 (Act No. 5 of 2000). Similar non-compliance was also reported in the previous year.
41. Bid documentation for procuring commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).
42. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the previous year.

Other information

43. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected KPA presented in the annual performance report that has been specifically reported in this auditor's report.
44. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
45. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected KPA presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
46. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

47. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

48. Leadership did not always oversee compliance with legislation, as instances of non-compliance with applicable legislation reported in the previous year were also identified in the current year. This was due to lack of consequence management being implemented.
49. Leadership did not monitor the implementation of the action plan to address material weaknesses identified in the audit of performance information. A proper record management system was not implemented to record information that supported the reported performance. This was due to slow response by management and the political leadership.
50. The processes followed during the preparation and review of the annual performance report were not adequate, resulting in material misstatements being identified in the annual performance report.

Auditor - General

Bloemfontein

30 November 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected KPA and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Thabo Mofutsanyana District Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation



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OFFICE OF THE MUNICIPAL MANAGER

Senior Manager
Officer of the Auditor General
Private Bag 315
Bloemfontein
9300

To: THE AUDITOR-GENERAL

Date: 30 November 2019

REPRESENTATION LETTER

1. This representation letter is provided for the purposes of your audit of the financial statements, the annual performance report and compliance with legislation of the Thabo Mofutsanyana District Municipality for the year ended 30 June 2019.
2. We confirm the following in respect of our responsibilities relevant to the audit as set out in the engagement letter agreed to on 30 November 2019.

Information provided

3. We have provided you with:
 - access to all information of which we are aware that is relevant to the audit, such as records, documentation, minutes of meetings of executive management, the accounting authority, the council, audit committees and any other subcommittees of those charged with governance held to date and other matters
 - additional information that you have requested from us for the purpose of the audit
 - unrestricted access to persons within the District Municipality from whom you determined it necessary to obtain evidence.

Audit of financial statements

4. We have fulfilled our responsibility for the preparation of the financial statements in accordance with South African Generally Accepted Accounting Practice (GRAP) and the Municipal Finance Management Act (MFMA) and Division of Revenue Act(DORA) and other applicable enabling legislation, in particular that the financial statements are fairly presented in accordance therewith except for the matters described in annexure A.
5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable except for the matters described in annexure A.

6. All known instances of non-compliance or suspected non-compliance with legislation, which we were aware of, and whose effects should be considered when preparing financial statements have been brought to the attention of the auditor, except for the matters described in annexure A.
7. Restatements made to correct material misstatements in the prior year figures are valid and are appropriately accounted for in the financial statements, except for the matters described in Annexure A.
8. The identity of all related parties, the related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of South African Generally Accepted Accounting Practice, except for the matters described in Annexure A.
9. All known actual or possible litigation and claims have been accounted for and disclosed in accordance with South African Generally Accepted Accounting Practice, except for the matters described in Annexure A.
10. All events subsequent to the date of the financial statements and for which South African Generally Accepted Accounting Practice requires adjustment or disclosure have been adjusted or disclosed, except for the matters described in Annexure A.
11. Plans were developed to mitigate significant doubt about the Thabo Mofutsanyana District Municipality's ability to continue as a going concern, and these plans are considered feasible based on the following:
 - Equitable share of R 114 283 000 is available to the municipality for the 2019/20 financial year
 - Assistance is also available from National Treasury as per section 109 and 139 of the MFMA should the District municipality have cash flow problems.

Audit of predetermined objectives

12. We have fulfilled our responsibility for the preparation of the annual performance report in accordance with the performance management and reporting framework. The matters described in Annexure A are those relating to the selected Key Performance Areas (KPA) scoped into this engagement that have not been corrected.
13. Significant assumptions used by us in making estimates are reasonable, except for the matters described in Annexure A.
14. All events subsequent to the date of the annual performance report that required the annual performance report to be amended or disclosed have been adjusted or disclosed, except for the matters described in Annexure A.

Audit of compliance with legislation

15. We have fulfilled our responsibility to ensure that we comply with legislation applicable to the District Municipality, except for the matters described in Annexure A on the subject matters and compliance requirements/criteria scoped into this engagement.

Internal control

16. We have fulfilled our responsibility as set out in the engagement letter dated 13 May 2019, for designing, implementing and maintaining internal control necessary to enable the preparation of financial statements and the annual performance report information that are free from material misstatement, whether due to fraud or error, as well as to enable

compliance with legislation. We believe that the internal control that we have maintained is adequate for these purposes and have functioned effectively throughout the financial year.

Prevention and detection of fraud and error

17. We have fulfilled our responsibility to perform a risk assessment and develop a risk management strategy, which includes a fraud prevention plan.
18. We have provided you with the results of our assessment of the risks of material misstatement as a result of fraud or error.
19. We have disclosed to you all the information in relation to fraud, suspected fraud or allegations of fraud which we are aware of, or which has been communicated by employees, former employees, regulators and others, and which affects the entity and involves:
 - management
 - those charged with governance
 - employees who have significant roles in internal control

Other information to be included in the annual report

20. The following documents to be included in the annual report are not available at the date of this representation:
 - Annual Report
21. The final version of these documents will be provided on 31 January 2019, before the annual report is issued.

These representations are made at your request and to supplement audit evidence obtained by you and to confirm information given to you orally during the audit.

Yours faithfully



Accounting officer

Annexure A

Information NOT provided			
	Instance	Reason	
1.	Property, plant and equipment	Supporting documentation for the value of R1 264 823 were not submitted	
2.	Payables	Supporting documentation for the value of R336 545 were not submitted	
3.	Employee related cost	Supporting documentation for the value of R629 000 were not submitted	
4.	General expenditure	Supporting documentation for the value of R303 714 were not submitted	
Uncorrected misstatements relating to the audit of the financial statements			
	Financial statement item	Misstatement	
1.	Property, plant and equipment	(R734 714)	
2.	Employee benefit obligation	(R240 000)	
3.	Receivables from non-exchange transactions	R40 872	
4.	Receivables from exchange transactions	R250 969	
5.	Payables	(R127 304)	
6.	Revenue from non-exchange transactions	(R70 812)	
7.	Revenue from exchange transactions	(R10 969)	
8.	Employee related costs	(R7 852)	
9.	Depreciation	R563 406	
10.	Lease rentals on operating lease	(R13 125)	
11.	General expenditure	R199 340	
12.	Contingent liabilities	R783 443	
Uncorrected misstatements relating to the audit of predetermined objectives			
	Subject matter	Indicator	Misstatement
1.	Basic service delivery	Number of water samples taken	434
2.	Basic service delivery	Number of waste disposal sites inspected	1
Instances of non-compliance relating to the compliance audit			
	Subject matter	Reference to legislation	Description of non-compliance
1.	Expenditure management	Section 62(1)(d) of the MFMA	Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure as indicated in the basis for qualification

			paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management (SCM) regulations.
2.	Expenditure management	Section 62(1)(d) of the MFMA	Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R 105 692, as disclosed in note 32 to the annual financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by interest and penalties incurred on late payments made.
3.	Human resource management	Section 67(1)(d) of the MSA	Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the MSA.
4.	Annual Financial Statements	Section 122 of the MFMA	The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of current assets, revenue and expenditure identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, resulting in the financial statements receiving an unqualified audit opinion.
5.	Procurement and contract management	SCM regulation 17(a) and (c)	Some of the goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year
6.	Procurement and contract management	SCM regulations 16(b) and 17(b)	Some of the quotations were accepted from prospective providers who were not on the list of accredited prospective providers and did not meet the listing requirements prescribed by the SCM policy, in contravention of SCM regulations 16(b) and 17(b).
7.	Procurement and contract management	SCM regulation 13(c)	Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
8.	Procurement and contract management	SCM regulation 29(2)	Some of the competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with SCM regulation 29(2). Similar non-compliance was also reported in the prior year.
9.	Procurement and contract management	Section 2(a) of the Preferential Procurement Policy Framework Act	The preference point system was not applied for some of the procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act. Similar non-compliance was also reported in the

			prior year.
10.	Procurement and contract management	2017 preferential procurement regulation 8(2)	Bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2).
11.	Procurement and contract management	Section 116(2)(b) of the MFMA	The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA. Similar non-compliance was also reported in the prior year.